

REBUILDING SUSTAINABLE PROSPERITY



EXECUTIVE SUMMARY

PART A: KEY ECONOMIC BELIEFS

Chapter 1 Free Markets: the Foundation of Our Prosperity

Chapter 2 The Right Balance: Fairness and the Individual

Chapter 3 The Proper Role of Government

Chapter 4 Our Federation: A Work in Progress

Chapter 5 Deregulation and Harmonisation

PART B: GROWING THE ECONOMY

Chapter 6 Productivity and Growth

Chapter 7 The Key Role of Education

Chapter 8 Workplace Productivity

Chapter 9 Small Business: the Engine Room of our Economy

Chapter 10 Encouraging Enterprise: Fifteenth is Not Good Enough

Chapter 11 Growing Our Regions, Growing our Community

PART C: PRUDENT MANAGEMENT

Chapter 12 Budget Policy – Fiscal Conservatism

Chapter 13 The Role of the Reserve Bank

Chapter 14. Financial Regulation

PART D: SUSTAINABILITY

Chapter 15 Population Policy

Chapter 16 The Environment and Climate Change

Chapter 17 Energy Policy

EXECUTIVE SUMMARY: Rebuilding Sustainable Prosperity

The Coalition is committed to sound, sustainable and consistent economic policy.

Sound and sustainable economic policy leads to strong economic growth with low inflation.

Sound and sustainable economic policy provides the resources to meet the community's long term social needs on health, education, aged care, housing and income support.

Sound and sustainable economic policy provides maximum opportunity for individuals to prosper and pursue their dreams and aspirations.

Consistent policy based on consistent principles reduces sovereign risk and gives investors confidence for long term decision making.

The Coalition's approach to achieving sound, sustainable and consistent economic policy will be based on a number of key principles.

At the core is the belief that free, fair and competitive markets should form the basis of our economic system. The rights and choices of individuals are paramount. Individuals, rather than governments, are usually best placed to make decisions that maximise community well being.

The Coalition believes in small government. The Coalition acknowledges that government has a role in raising taxes and other revenue, formulating laws and regulations, and spending money to achieve legitimate social objectives. However, the government's powers to spend and to regulate need to be exercised with caution. Taxes must be as low, as fair, and as simple as possible. The Coalition is acutely aware that taxes are other peoples' money.

The Coalition strongly supports sustainable economic growth. Strong economic growth provides economic security. Strong economic growth ensures rising living standards.

Fostering strong growth in productivity is an important element of this because it is ultimately the level of productivity that determines our standard of living. The Coalition believes that quality education is a foundation for high productivity. Policies which boost participation in the workforce are also of key importance.

The Coalition strongly supports the small business sector. The Coalition believes small business is the engine room of the Australian economy.

The Coalition believes in a strong, prosperous and vibrant regional Australia.

The Coalition believes in fiscal conservatism. The Coalition will restore fiscal rectitude. We will run a budget surplus over the cycle. We will repay Labor's debt as quickly as we can.

The Coalition is committed to "light touch" regulation. Australia's system of financial regulation weathered the global storm better than almost any other developed country. The Coalition will be cautious in saddling the Australian financial sector with more onerous regulation which arises from the shortcomings of less well supervised markets overseas. Financial Services is a truly global industry but its impacts are dramatic locally. More regulation constrains credit and inhibits innovation. Australia has led the world in prudential supervision, corporate regulation and market oversight. We must continue this global leadership.

Finally, the Coalition believes that government policies must lead to a sustainable Australia. Economic, population and environmental policies must take into account social harmony, quality of life, the provision of adequate infrastructure and the preservation of the environment.

PART A: KEY ECONOMIC BELIEFS

Chapter 1: Free Markets: the Foundation of Our Prosperity

Free, competitive and efficient markets should be the basis for the Australian economy.

The Coalition believes free and competitive markets produce and distribute goods and services more efficiently than any other mechanism. Free markets also maximise community well-being: they give individuals maximum opportunity to take control of their own destiny and make the most of their own efforts and skills.

The Coalition supports fair, competitive markets throughout the Australian economy.

We support the principle of fair and free trade among different economies too. Australia cannot efficiently produce all the goods and services it desires. It must trade with other countries and in doing so harness its advantages. Ready access to overseas markets for our exports is only achieved by permitting reciprocal arrangements for producers of goods and services in other countries.

Australia is well endowed with energy and mineral resources, and has abundant land for agriculture. It has long engaged in the production and refinement of these commodities. But it should not be overlooked that Australia has a modern and diversified economy, with the major part of economic activity involved in manufacturing, construction and services. The Coalition recognises the benefits of fostering a dynamic and diverse economy through promoting well functioning markets.

Well functioning markets rely on transparency, accountability and liquidity. Where markets are operating well they should be largely left alone.

That said, the Coalition recognises that sometimes markets fail. Governments from time to time have a role to play in the marketplace in the event of market failure.

Considerations of size or economies of scale, or considerations of the public good, can result in unsupervised market action that fails to provide the optimum quantity of goods and services at a competitive price. In these cases of market failure, it can be appropriate for the government to take steps to improve the functioning of markets.

There are a number of potential policy responses available to governments in these situations. The need for intervention will depend on the nature and severity of the failure, and on whether that failure is perceived as temporary or permanent.

Governments can try to rectify faulty markets directly through regulation to ensure integrity and to promote liquidity, transparency and accountability. Governments can oversee markets to prevent the emergence of monopolies or other elements of excessive market power. The best defence against damaging market behaviour is a transparent and cogent set of laws that promote fair competition. Behaviour such as market manipulation and collusion, or behaviour which unduly hampers the operation of a free market should be outlawed and penalised. Common law rights to conscionable and reliable contracts must be reinforced with legislation.

The operation of the market should remain centred around commercial decisions. Importantly, government should not seek to unfairly influence market outcomes and government must not choose “winners” and “losers”.

Chapter 2: The Right Balance: Fairness and the Individual

The rights and well-being of individuals are paramount. Individuals are best placed to make the decisions which maximise their well-being.

In Australia the notion of the “fair go” is very strong.

One element of this notion is that all individuals should have reasonable equality of opportunity. Access to high quality care for children, education, and health should not be subject to the lottery of birth. Having the opportunity to contribute to society to the best of our ability is an important component of the “fair go”.

Given that there **are** lotteries of birth – we can’t choose our parents’ wealth or location – Australians believe it is right and fair for government to try to ensure that everyone has a more equal start in life and broadly similar opportunities.

The “fair go” also requires that those truly unable to fend for themselves receive appropriate social support. That support can be provided by the taxpayer through the tax and transfer system. This is the principle underlying the social welfare system.

Fostering equality of opportunity is also the objective of government funded and supported social programs and for the creation of an impartial and effective judicial system. Taken together, government provided transfer payments, better education and health care, and equality before the law are effective structural weapons against entrenched disadvantage.

The voluntary sector plays a key role. Not-for-profit community and religious organisations, and the countless individual acts of compassion and charity that too often go unremarked, provide substantial social and financial support.

The concept of a “fair go” however has never meant equality of outcomes. There should be benefits from hard work and enterprise. The ability to succeed is a major incentive for hard work, endeavour, and sacrifice. It is fair that individuals should be able to reap rewards from their efforts.

The tax and transfer system is not intended to ensure everyone enjoys the same standard of living irrespective of their efforts. Most Australians would agree that such an outcome would not be fair to the individuals who put in the effort to succeed. Individuals should be

in control of their own destiny. At the very least, they have a personal responsibility to look after themselves and respect the rights of others.

The notion of the “fair go” is important when it comes to the issue of how much support should be provided through the tax and transfer system, and to whom it should be provided.

The Coalition believes there is a case for temporary income and other support where those that are otherwise capable of fending for themselves are, for a time, unable to do so for reasons beyond their control.

The Coalition believes that income support is not intended to sustain the lifestyle of those who are capable of work and of making a contribution but who choose not to. Most Australians would agree that it is not a “fair go” to provide long term taxpayer support for those who have the capability (but not the willingness) to support themselves.

Chapter 3: The Proper Role of Government

The government has a role in raising taxes and other revenue, formulating laws and regulations, and spending money to achieve its legitimate social objectives. However, the government's powers to spend and to regulate must be exercised with caution. Taxes must be as low, as fair, and as simple as possible. The Coalition believes in small government.

Prudent Spending and Minimal Regulation

The Coalition does not want government at the centre of the economy.

Elevating the power of the state weakens the power of individuals to be the architects of their own lives.

Government has a duty to ensure government services are provided as efficiently as possible, so as to minimise taxation.

The Coalition does not want government involved in individual commercial business transactions. We know that governments are often not successful at running business ventures. They lack the incentives to make sound judgments and to use resources efficiently.

A large and expanding "corporate state" gradually but surely distorts the workings of the market because government decisions take into account the preferences and biases of the state rather than just commercial acumen.

The Coalition will assist business when it needs to, in the national interest. But we will do so in a way which is at arm's length, where the government and the bureaucracy interfere as little as possible with commercial decisions.

Our view is that the government should intervene only where there is a market failure, not a business failure, and only where the benefits of government intervention outweigh the direct and indirect costs. Only a national interest test will suffice.

All public sector financial support to industry has to be paid for. This means that some other economic sector - be it households or other industries - is financially worse off so that the assisted industry can be better off. Assistance to one industry sector is quite literally a tax on another. These costs of assistance are hidden and dispersed and so are almost never

identified. Assisted industries may claim that jobs are created or investment is increased, but they do not count the reduction in jobs or investment elsewhere in the economy.

Lower, Simpler and Fairer Taxes

The Coalition believes in lower, fairer and simpler taxes.

Lower, because every dollar of tax collected is a dollar taken from a wage earner and their family, or a business. Tax inhibits the ability of households to support themselves through their own efforts. Tax reduces individual well being, because individuals are better than governments at spending their income to maximise their well being. Tax is a cost on business that is lost to shareholders. The Coalition is acutely aware that tax is other people's money. Excessive tax limits personal freedom.

Fairer, because the Coalition believes that the tax system is not simply a mechanism for financing the government's spending needs. It can also be used to facilitate beneficial economic and social outcomes. A tax system is fairer when the burden of taxation is shared across the community. Those who can pay tax should pay something, with the amount they contribute subject to the capacity to pay, within limits. The tax base should also be as broad as possible to avoid any unfair imposts on any one sector of the economy or any undue reliance on one type of tax. This will ensure that tax rates are as low as possible.

Simpler, because the tax system ought to be easy to understand. The existing body of tax laws is complex and needs to be rationalised and simplified. People, particularly PAYE employees, find the process of completing tax returns somewhat confronting.

The Coalition would closely examine proposals which would reduce the compliance burden of revenue collection on households and business. Tax collection ought to be easy to administer, efficient, and cost effective. The costs of administering the current system are large – at the federal level the Australian Tax Office alone employs around 22,000 people and has an annual operating budget in excess of \$3bn. The state revenue offices have considerable staff and expenses on top of this. The Coalition believes this national administration burden should be lowered.

The Australia's Future Tax System Review (the Henry Review) laid down 138 recommendations for improving the system of taxation. The government adopted only a few of these. It was a timid response which ducked the hard decisions.

Labor's philosophical approach to taxation is to increase it. Their major initiatives have been to increase the tobacco excise tax and to introduce a new great big new tax on mining. Their attempt to impose another great big new tax – the sale of carbon permits – has been deferred for now but the intention remains.

Real tax reform involves broadening the tax base, removing unfair and inefficient taxes, reducing complexity and simplifying deductions, encouraging national savings, and overhauling the interaction between the welfare and tax systems so as to reduce the disincentive to work.

The Coalition achieved major reform with the introduction of the Goods and Services Tax in combination with lower personal income tax rates, the abolition of a raft of complex and inefficient federal and state taxes, and compensation to preserve living standards for those on low incomes. These reforms were a key illustration of the Coalition's objectives of lower, simpler and fairer taxation.

Taxes can also be used to alter economic behaviour. They can be set in a punitive way to encourage lower consumption of certain goods and services, such as tobacco or alcohol. Concessions from tax can be used to encourage activities which are deemed to be in the public interest. Tax concessions for charitable donations are examples of this. The tax regime overall should be directed at raising productivity, reward for effort, and increasing saving.

Chapter 4: Our Federation: A Work in Progress

Australia has three tiers of government: national, state and local. The Coalition supports the retention of tiered government.

As a general principle, government services are most likely to best meet community needs when they are provided and funded by the tier of government most in touch with local circumstances. For example, local refuse collection is best organised by local councils. Public transport should function best on a state (or perhaps local) level. National defence and foreign affairs is properly a function of the national government.

Retaining multiple state and local governments can also spark competition. At least in theory citizens can migrate to another state or council area if it offers a superior set of services at lower cost. States might compete with each other to implement the best policies.

But multiple levels of government also entail costs.

First, multiple governments require more elected politicians and bureaucracies, which cost money.

Second, their responsibilities can overlap, which causes confusion and additional costs. For example, both the federal and state governments now have roles in health, education, industry assistance, the environment, aged care, indigenous policies, rural and regional policies, water and transport policies; the list goes on.

The constitution envisaged the states would provide most of these services. The constitution gives the federal government an explicit list of things to do: it makes no mention of education, health or industry assistance, for example. State governments are meant to deal with them. Each of the states has a full Westminster system of government, just like the Commonwealth, and is consequently responsible to their electorates.

But the states' willingness to levy sufficient taxes to pay for the delivery of their services is currently lacking. This means the Commonwealth has had to provide money to the States. Inevitably, it puts conditions on this money, and tries to check that the States are meeting their conditions.

This discrepancy between responsibilities and revenue is known as a vertical fiscal imbalance: the State governments rely on revenue raised by the Federal government to make up the shortfall.

The Coalition believes these vertical imbalances are a source of inefficiency because the States do not take electoral responsibility for raising the tax to pay for the services they provide. With electoral responsibility would come a greater incentive to spend revenue efficiently and effectively.

There is also a horizontal fiscal imbalance too: different States have different capacities to raise revenue. Horizontal imbalances have typically been resolved through allocations made on the recommendation of the Commonwealth Grants Commission. There are also other disbursements from the Federal government to the States, including tied grants.

The previous Coalition government sought to ease some of these imbalances when it introduced the Goods and Services Tax. It ensured that every dollar went to the State governments to provide a stable and growing revenue base. This is why the Coalition did not include GST revenue and distribution as an inclusion in the Budget numbers.

When Labor changed the presentation in 2008 this signalled their early desire to claim back the GST for Commonwealth expenditure purposes. This occurred in the 2010 National Health Agreement.

These fiscal imbalances and the resultant lack of accountability of the States leads to frictions and inefficiencies and represent a drag on Australia's productivity and growth.

The Coalition would seek greater symmetry between government responsibilities and revenue raising.

Chapter 5: Deregulation and Harmonisation

It has long been recognised that one of the key elements in driving sustained productivity gains in the Australian economy is a continued program of microeconomic reform. There were a range of reforms in trade and the capital markets through the 1970s and 1980s, as well as seminal reforms in taxation, industrial relations, and corporate law introduced by the previous Coalition Government.

A key area for further reform is to reduce and ultimately eliminate differences in regulation across the states. The objective is to create a single harmonised national market to replace nine state and territory markets where appropriate and when productivity gains can be made without reducing competition.

Current differences in business regulation between states, and a lack of vigorous interstate commerce in some areas due to quirks in state law, impose a significant compliance burden and costs on businesses as well as significant losses in efficiency. It is a particular problem for national employers, which operate across state borders. They are required to comply with different legislation, measures, and approvals processes.

The Labor government has sought to address this issue through the Council of Australian Governments national reform agenda, with the agreement to deliver a seamless national economy.

The Government's stated objectives are:

- to deliver more consistent regulation across jurisdictions and address unnecessary or poorly designed regulation; and
- to reduce excessive compliance costs on business, restrictions on competition and distortions in the allocation of resources in the economy.

The Coalition fully supports the need to reduce the inefficiencies and drag on private enterprise and growth from differences in state and territory regulations.

However, it believes the pace of reform has been far too slow. The report of the COAG Reform Council National Partnership Agreement to Deliver a Seamless National Economy: Report on Performance 2008-09 found that of the 27 deregulation priorities, there were 5

reform streams where milestones had not been met, and a further five reform areas where there was some slippage. Of the eight competition reforms, milestones had not been met in four streams. The report noted the Reform Council had broader concerns about key competition reforms in energy, infrastructure and transport.

Another area of concern is the overall burden of government regulation on business. The Productivity Commission estimated that reducing excessive regulation could reduce the cost of doing business by \$8 billion. This would increase Australia's GDP by 1.3 per cent.

At the last election, Labor promised a "one-in, one-out" regulation rule. Instead, according to figures collated by the Parliamentary Library, the Labor Government has introduced 200 regulations for every 1 they have removed. They have introduced 9997 new regulations in just two and one half years and withdrawn just 52.

The Coalition Government will commit to minimising the regulatory burden on business. This can be done by imposing financial penalties on Departments that recommend new regulations without recommending the removal of others.

PART B: GROWING THE ECONOMY

Chapter 6: Productivity and Growth

The Coalition supports action to foster strong economic growth. Strong economic growth provides economic security. Strong economic growth ensures rising living standards.

Improving productivity is an important public policy goal because it is ultimately the level of productivity that determines our standard of living.

Most of us probably think about productivity in terms of how much output each worker produces. This is partly determined by how hard we all work, the sort of job we do and the value we add.

The productivity of the capital stock should also be part of the equation. This is essentially a function of the type of technology used, the efficiency of the machinery and the efficiency of the production process.

These measures are not necessarily a good guide to the standard of living of the population as a whole because they exclude people who do not work. So they exclude children, the unemployed and those who are fully retired.

The measure which provides the best guide to the living standards of the population as a whole is output per head of population.

This is not just determined by how hard we work or the quality of the machinery we use, it is also determined by the proportion of the population that is actually working.

There is a general concern amongst commentators that Australia's productivity performance has been slipping, and is expected to slow further in the next few decades.

Over the 1980s and the 1990s, growth in GDP per capita averaged about 1.9% a year.

In the 2000s it slowed to about 1.7% a year.

The third intergenerational report projects output per head of population will slow further to an average rate of about 1.5%pa over the next 40 years.

If this were to come to pass, it would mean Australians on average were not increasing their material standard of living as quickly as they had done in recent decades.

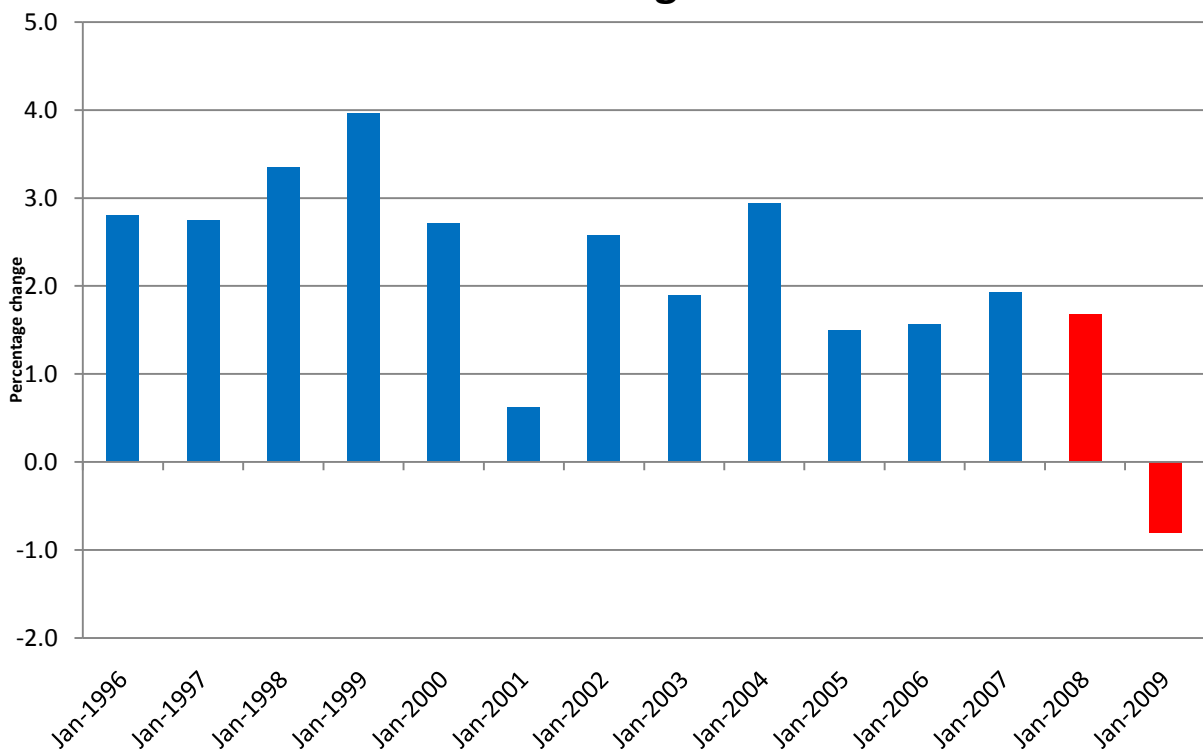
Improved productivity is primarily the result of business decisions as entities strive to survive in a competitive environment by producing more with less.

Governments can assist this process in a number of ways.

First, by ensuring that community infrastructure, both private and public, is adequate, efficient and cost effective. This includes roads, rail, ports, utilities, telecommunications, the legal system and so on. Government investment in infrastructure should be subject to publicly released cost-benefit analysis. It is the view of the Coalition that public sector investment in infrastructure should not be used as an alternative to private investment.

The second way governments can aid productivity is by lowering the cost of capital and maximizing the availability of capital for private businesses. The Government should not be competing with the private sector for scarce capital, especially once businesses return to the markets.

GDP per capita - real growth (a) Year ending 30 June



(a) Chain volume measures, reference year for chain volume measures is 2007-08
Sources: ABS, *Australian National Accounts, National Income, Expenditure and Product*, Dec 2009, Cat. no. 5206.0
ABS, *Australian Demographic Statistics*, Cat. no. 3101.0

The “crowding out” effect of government borrowings is particularly acute for small businesses. Unlike the large corporate entities, small businesses do not have access to the equity market to raise additional capital. In 2009 listed companies raised about \$100billion in new equity, excluding IPOs and other start-up raisings.

Some of this was used to pay down debt. Small business was simply unable to go down this route, making them critically exposed to the cost and availability of debt finance from institutions and the non-intermediated markets.

The third step governments can take is to minimise the regulatory drag from Government. This includes the cost of complying with Government regulations and also taxation. Part of the challenge for a Coalition Government is to achieve national uniformity without compromising the benefits of taxation and regulatory competition.

The fourth step to improve productivity is to promote competitive markets. Barriers to competition must be removed. Measures to promote competition must be implemented in cases of natural monopolies/oligopolies. The as-yet incomplete privatisation and deregulation of energy markets, and the incomplete move to a truly national energy market, is a case in point.

The fifth step concerns the skilling of the workforce. If our skills are better, then our productivity will be higher. To raise productivity we need for example to improve the education curriculum by focusing on skills that develop the capacity of individuals to solve problems, rather than just rote learn the knowledge of others.

The sixth element is to encourage innovation and technological progress as a driver of productivity. In Australia there is some evidence that the market fails to sufficiently drive innovation. One difficulty is finance. Another difficulty is the reluctance of investors to accept risk, which limits capacity to commercialise good ideas.

Governments can maximize the productivity of the population as a whole by encouraging as much of the population as possible to engage in work.

This can be facilitated by targeted initiatives.

Training and re-education programs can promote the re entry of workers who have lost employment.

Careful design of retirement policies can encourage older workers to remain in the workforce for longer. Beyond that there may need to be measures to promote change in community attitudes so that employers recognise the value and contribution of older workers. In addition, the economic and social benefits for Senior Australians that are able to remain in work for longer must be better recognised.

Policies that help preserve family income on the birth of a child and which facilitate parents with existing skills returning to the workforce after the birth of a child are also crucial for participation improvements.

Chapter 7: The Key Role of Education

Education is the essential stepping-stone for increased productivity, jobs and economic growth. Effective participation in the workforce is heavily dependent on education. The absence of knowledge and skills is directly correlated with poverty and unemployment.

The Coalition supports an education system that creates a pathway for Australians to reach their potential and realise their dreams. Following this pathway will lead to a more prosperous Australia.

Higher education is the fundamental and enduring building block upon which to create opportunity for young Australians and prosperity and cohesion for Australia's future.

The Coalition is committed to long-term, ongoing reform of the higher education sector aimed at giving students more choice, and universities more freedom and flexibility to respond to changing circumstances. This will ensure that Australia is able to face emerging challenges including workforce shortages.

Quality education and research are crucial to our nation's and our people's success in an increasingly interconnected and interdependent world.

The Coalition supports the goal of increasing participation by students from lower socio-economic backgrounds in higher education.

The evidence suggests that at present every Australian who wants to obtain higher education and meets all the academic prerequisites is able to find a place at university. So *supply* is not the problem, and attempts to increase participation by encouraging universities to increase the supply of places is flawed policy and likely to disappoint the proponents of the current approach.

The Coalition believes that we should focus our efforts on increasing the *demand* for higher education places among students from lower socio-economic backgrounds. And we have to start early – in our primary and secondary schools. By the time young people finish grade 12 it is often too late, at least in the short term, to convince them of the merits of pursuing further education if their whole schooling experience thus far has not prepared them for that option.

What has been indicated from overseas experience and research is that if you want to increase the participation of people in higher education, we need to improve educational attainment beginning in primary school.

The *Organisation for Economic Co-operation and Development* assessment of student performance in schools, reveals that countries that attract more students to higher education from a low socio economic background have substantially greater principal autonomy and local independence at the school level with regard to adapting and implementing educational content and/or allocating and managing resources.

The more independent the school, the more the school is focussed on the school community, the more parents are engaged, the more autonomy the principal has to determine the direction of the school and the better the outcome for the school.

Many schools are shackled by bureaucracy and red-tape. A Coalition Government will cut the shackles and allow principals and school governing councils the independence they need to take direct action in their communities. This will result in a better education for students.

Secondly, we are focussing on the whole range of tertiary options including vocational and training options. Industry accredited vocational education; school-based apprenticeships, and traineeships are each initiatives designed to open up the pathways for all to post-school education, training and employment options.

These are essential initiatives to adequately address the needs of the school leavers who do not go direct from school to university. They inevitably mean expanding what we are asking of secondary education.

Vocational and Educational Training (VET) pathways for retraining of the existing workforce are a priority in an era where rapid adjustments to economic challenges are required. This is why so much attention has been given over the last decade to reforms of the industry training framework.

Employment growth relies heavily on increasing participation in quality education. In the global economy Australia's competitive advantage is in the knowledge and skills of its people, where tasks can be performed anywhere and instantaneously transmitted to any other part of the globe. Jobs will be where the knowledge and skills are located.

Chapter 8: Workplace Productivity

Productive labour markets deliver more wealth for all Australians.

For workers, the labour markets not only provide a source of income, but also social interaction and a sense of personal worth.

Workers want conditions to suit their particular family or other circumstances. They want the opportunity for promotion and for transferring between jobs. They want to feel safe and respected in their workplace.

For employers, labour markets are an essential part of the production process. Employers require workers to suit the particular requirements of their particular enterprise. The tired old fashioned “class warfare” notion that the interests of workers and those of employers must as of necessity conflict, is at best a theory that should be discarded in the scrap bin of history.

The interests of workers and their employers in fact coincide, and they are co-dependent.

Whilst as a Coalition we seek to have minimal Government interference in the interaction between people, it has long been accepted that there is a need for Government regulation to ensure that workers are not exploited and that those that employ them are not exploited or bullied by inappropriate industrial muscle. As a result, there is a long accepted view by the Coalition that there is a need for regulation of labour markets to ensure bargaining power equality, and this includes workers and employers alike especially in the small and medium enterprise sector.

For the employment relationship to be sustainable in the long term for both the worker and those that employ them, there must be a link between the conditions of pay, conditions of work and the productivity of the worker.

It is well established that the most productive workforce is a workforce that is content with their general conditions. However, the concept that every worker and every employer can somehow be put into a “one size fits all” regulatory straight jacket is to misunderstand the dynamic nature of the modern employment relationship and the needs of workers and their employers in the 21st century.

More and more workers and employers are seeking to structure their arrangements to suit their own specific requirements. Therefore, the key to productive workplaces and thus sustainable employment opportunities is to ensure that workers and employers have the capacity and right to tailor their employment arrangements for their mutual benefit and wellbeing. The Coalition's workplace relations policies will seek to enhance this right; allowing each worker to determine a tailor made employment opportunity with their employer with the protection that workers will be better off overall.

There is no doubt that giving workers and employers the capacity to agree on the terms of their particular employment circumstances for their mutual benefit has allowed the labour market to be resilient during the recent economic downturn.

The Labor Government's changes to our workplace laws, whilst including some welcome initiatives, has in fact introduced an element of excessive regulation which has stifled the aspiration of workers, their unions and employers from negotiating for their mutual benefit

Whilst Labor's changes are still a work in progress, it is quite clear that they are designed to give strong monopoly powers to the trade union movement. This will deliver excessive powers to third parties to the detriment of workers and their employers.

The Coalition had a record of genuine real wages growth whilst growing the total number of Australians employed. This helped to deliver a more productive economy. Through that many more Australians enjoyed the benefit of the economic good times.

It is a simple economic truism that the pursuit and delivery of wage increases in excess of inflation which are not linked to productivity increases are not genuinely sustainable. They increase the cost of living for all Australians and ultimately cost Australian jobs.

Chapter 9: Small Business: the Engine Room of our Economy

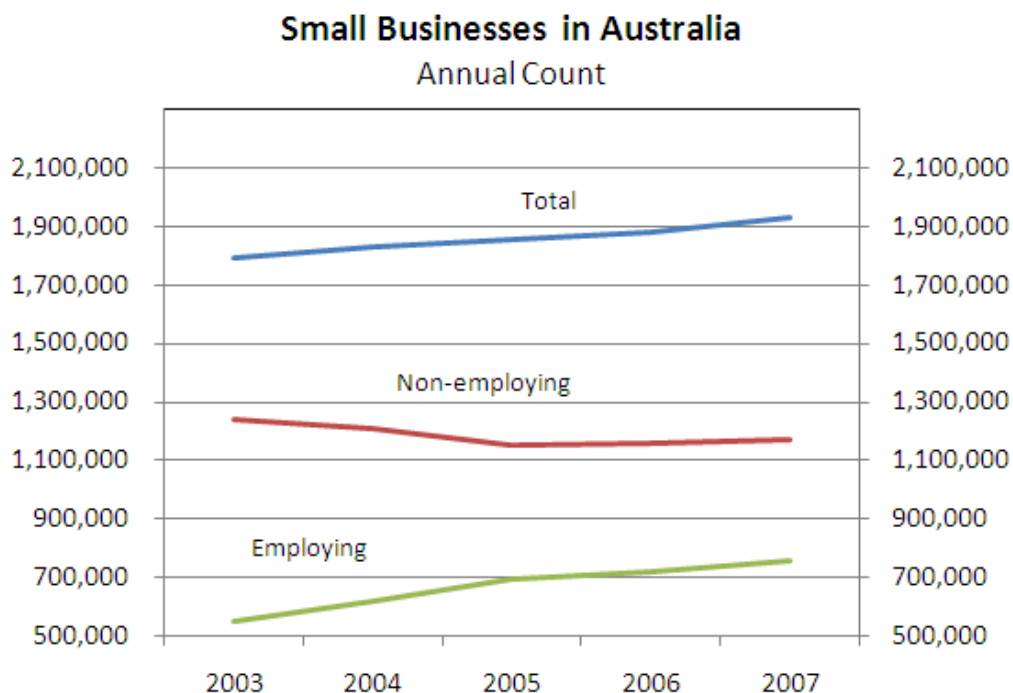
Small business is vitally important to Australia.

There are more than two million small businesses in Australia. Most businesses in Australia are small businesses – they comprise over 90% of all businesses in Australia.

Over half of small businesses are “one person” operations of self employed individuals or shared owners. The others are important sources of employment for other Australians. Small business employs over five million people, or around half of all Australian workers.

Many small businesses are home based, a trend which is facilitated by advances in technology which allow interaction with distant customers.

Surveys suggest small businesses contribute just under half of operating profit before tax and just under 40% of the value added in the industries in which they are active. And, perhaps surprisingly, they are not all locally focussed. Small businesses comprise over one third of all Australia’s exporting businesses. They are strongly represented in exports of property and business services; retail trade; and agriculture, forestry and fishing.



Source: ABS, *Counts of Australian Businesses, including entries and exits, 2002-03 to 2006-07*, Cat No. 8165.

Small businesses can be found throughout Australia, from the inner city through to the regions. They cover just about every industry sector, from construction, wholesale and retail trade, property and business services, personal services, and agriculture.

Running a small business involves great effort and commitment. Owners establish, operate and grow their business. But with this effort comes a sense of satisfaction and achievement. A desire to build and create independent success is often a key reason for being in the small business sector.

Small business is the engine room of the Australian economy and a testament to the values of a liberal society. A thriving small business sector is a key contributor to a prosperous Australia.

The role of government should be to engineer policy which seeks to support and encourage small business success. However, instead we find that many small businesses are bogged down in 'red tape' – a maze of paperwork, regulations and compliance orders that strangle enterprise.

There are the multiple taxes that must be paid to the various levels of government - company taxes, land taxes, the GST, just to name a few. There are obligations relating to employment, including payroll tax, superannuation, and workers compensation. There are the multiple areas of compliance which must be met including industrial law, licensing, and occupational health and safety standards. There are also industry specific issues, for example food safety standards for restaurants and cafes.

The complexity of regulation, the frequency of complying, and the need to constantly adjust procedures to meet changes in requirements are very time consuming. They may also result in lost investment opportunities. It may result in the business not growing as quickly as it should. Overall it can inhibit innovation and create a drag on productivity, investment and growth. Importantly, these burdens act as a disincentive to the start up of new small business enterprises.

The Coalition supports actions which reduce the burden of "red tape" on small business.

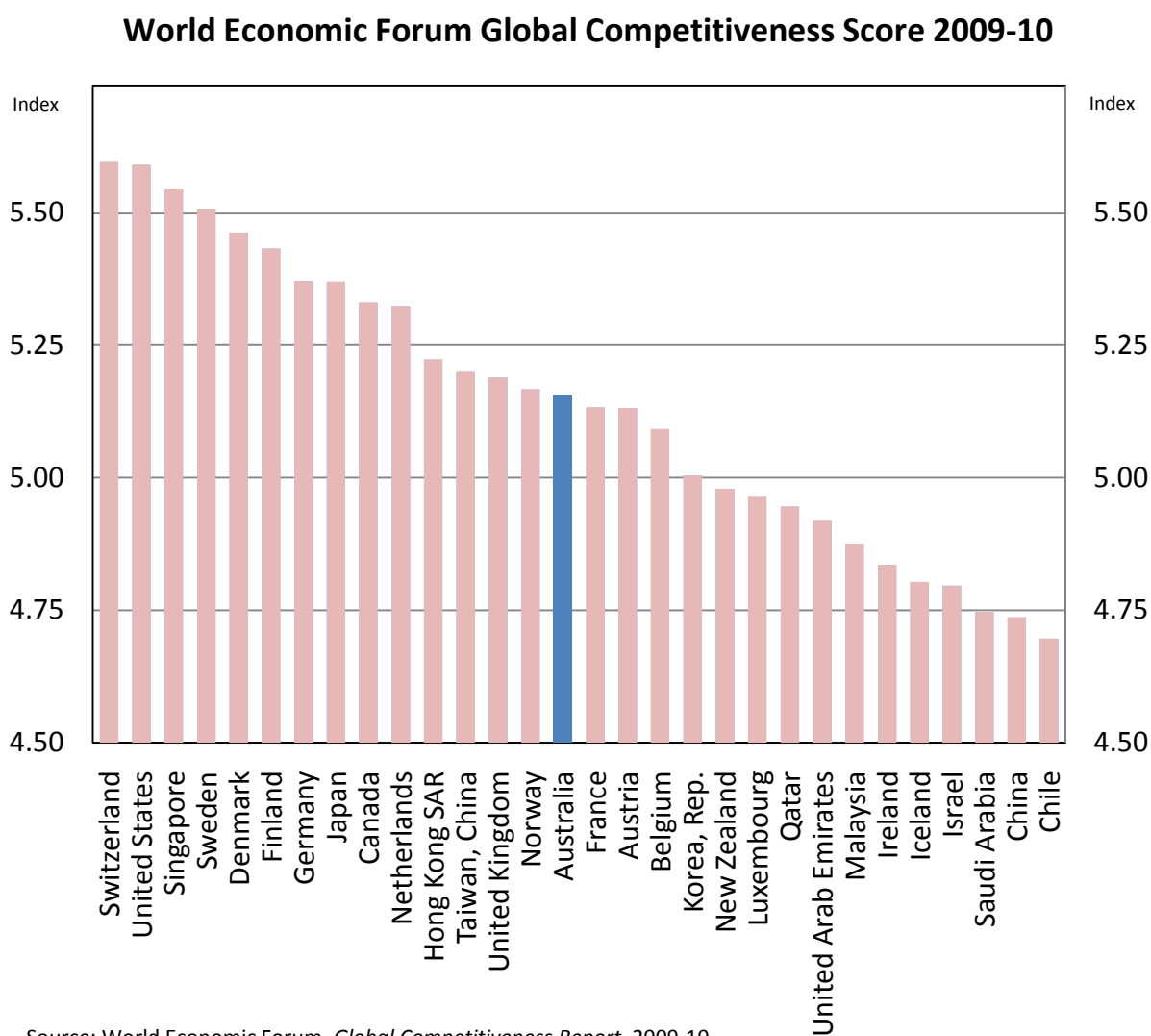
The Coalition strongly supports the small business sector.

Chapter 10: Encouraging Enterprise: Fifteenth is Not Good Enough

An overall assessment of Australia's attractiveness as a place to do business is provided by the World Economic Forum's Global Competitiveness Index.

The index comprises 12 key inputs; institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market sophistication, technological readiness, market size, business sophistication, and innovation.

Australia ranks 15th out of 133 countries. Our ranking in the top 30 is displayed below.



Source: World Economic Forum, *Global Competitiveness Report*, 2009-10

To progress further, the Forum suggests there will need to be improvements in business sophistication; innovation capacity; and infrastructure, particularly ports.

The most problematic factors for doing business are identified as

- Restrictive labour regulations;
- Access to financing;
- Tax rates;
- Tax regulations;
- Inefficient government bureaucracy; and
- Inadequate supply of infrastructure.

The Coalition will develop policies to improve Australia's performance in these areas.

Australia should be an attractive base for financial services in the Asian region.

Australia possesses four key foundations for creating a global financial services centre.

Those foundations are:

1. Quality of financial markets. Australia possesses diverse, deep and liquid financial markets, which operated well during the global crisis. Transparency and market integrity are endemic here.
2. Our governance. We offer a high degree of political stability with a robust and stable democracy. The economy is evidently resilient; it avoided technical recession through the global financial crisis, and recorded rates of growth which are the envy of the developed world. Our financial regulation is sound and robust. At a time when there is a global review of financial regulation underway, our system offers a template for the way it should be done.
3. Personnel. Australia's big advantage as a global financial centre is the global nature of its population, language skills and high level of education.
4. Infrastructure. Australia has modern communications and IT systems, efficient settlement systems, and robust and impartial legal and accounting systems.

The Coalition has long been a champion of boosting Australia's place as a global financial centre. It was the Coalition which put in place key regulatory and taxation reform to enhance Australia's attraction as a financial centre. The Coalition appointed Australia's first Minister for Financial Services.

The Coalition abolished a range of inefficient financial services taxes, including Financial Institutions Duty and stamp duty on marketable securities, saving investors many billions of dollars in taxes and compliance costs. And the Coalition abolished interest withholding tax on Australian sourced interest paid to offshore investors.

The Coalition overhauled Australia's treatment of Offshore Banking Units. Under the original arrangements, Australia's OBU regime exempted certain offshore parties from Australian tax and allowed them to pay 10 per cent tax on their OBU income. But only banks and authorised foreign exchange dealers could set up an OBU and get the tax break. The Coalition's reforms extended eligibility to funds managers, life insurance companies and custodians.

The Coalition Government also launched the Centre for Global Financial Services, now part of Austrade, to enhance Australia's position as a provider of global financial services.

It created the role of Australia's 'Global Financial Services Ambassador' and used this position to highlight Australia's credentials as a centre for global financial services in the Asia-Pacific time zone.

There have been many reports by both federal and state governments about boosting Australia's role as an international financial centre. The most recent is the Johnson Report on Australia as a Financial Services centre.

This made 19 recommendations across a range of issues. These included measures to increase the size of the market, improve access to capital, enhance competition and efficiency, maintain best practice regulation, deepen regional engagement and strengthen the government business partnership.

The Coalition remains committed to boosting Australia's attractiveness as an international financial centre and to expanding our exports of financial services.

Chapter 11: Growing our Regions, Growing our Community

The Coalition believes in a strong, prosperous and vibrant regional Australia. Our regions have immense natural advantages. Over half Australia's exports originate in regional Australia. Our access to affordable food is largely provided from the produce of regional Australia. Outer and regional Australia grew at a faster pace than the rest of the country between 2000 and 2005 (the last year for which data is available).

Looking forward, higher commodity prices are expanding the opportunities available in regional Australia. The future of regional Australia is critical to the future of our nation.

The Coalition is committed to an active, ongoing and sustainable regional development policy.

For all of our modern history Australia and particularly regional Australia has suffered a comparative disadvantage because of perceived distance from markets. While some areas of disadvantage remain, new technologies in telephony, the internet and mobile devices generally allow Australians in regional and remote areas to engage in commerce as if in the centre of a city. This is the greatest modern advantage for Australia and particularly regional Australia, as the world divides into three time zone trading blocks-the Asian time zone, the American time zone and the Euro-African time zone. North-south internet based commerce in the Asian time zone is a great advantage for regional areas.

It is also the case that more affordable transport, particularly in aviation services, is a particular major advantage provided it does not reduce regional centres to a transit centre for fly in /fly out workers.

A Coalition Government will listen to regional Australia to make sure that its voice is heard, and will help it make the most of these advantages.

The Coalition's regional development policies will be guided by a number of clear principles. First, the Coalition recognises that the small businesses of regional Australia do best when governments enact responsible economic policies that provide stable, low-tax and efficient conditions. To help regional businesses the Coalition will end the Labor Government's wasteful and reckless spending, which increases interest rates and exchange rates.

The Coalition will also help regional businesses by continuing to improve the efficiency and lower the cost of Australia's transport infrastructure.

The last Coalition Government reformed Australia's waterfront increasing productivity by up to 60 per cent, with crane rates improving from 17 to 28 movements per hour. From the early 1990s to 2003, average electricity prices (for businesses and households) fell by 19 per cent; rail freight rates fell by 8 per cent for wheat and up to 42 per cent for coal; and port charges fell by up to 50 per cent. In contrast, the Labor Government has re-established restraints on coastal shipping, jeopardising Australia's export competitiveness.

Second, the Coalition Government will listen to regional Australia. The Coalition recognises that regional Australia is a diverse mix of communities, small and large, spread over an area larger than Western Europe. There is no single, perfect regional development policy which can suit this diversity. By listening to regional Australia, a Coalition Government will tailor policy responses to the unique circumstances of individual areas.

For example, regional Australia is changing. Some towns are booming due to the development of mining projects, even though they are struggling to manage the pressures that this growth creates. Other towns are experiencing an influx of “sea-changers” and “tree-changers”. Still other towns struggle under the yoke of falling population levels, lack of employment opportunities, substance abuse and social breakdown.

Our role must not be to tell communities what they need, but to listen to what they need.

Third, a Coalition Government will ensure that regional communities have access to the basic services necessary to allow businesses to grow and communities to prosper.

Fourth, the Coalition will support investment in cost-effective projects and programs in regional areas that have the potential to grow employment opportunities, create transport corridors which stimulate growth over a broader area, reduce welfare dependence and close the gap on indigenous disadvantage.

Fifth, the Coalition will promote regional Australia as an alternative to our increasingly congested and overcrowded cities.

Sixth, the Coalition will ensure that all government policies consider the social and economic impacts they have on regional Australia. The Coalition recognises that we can not stand still in many areas. We have to change the way in which we use water, we have to pay more attention to the effects our decisions have on the environment, which our children and grandchildren will inhabit later. But as the community as a whole changes the balance in favour of environmental responsibility, the community must share the burden of these changes.

But most of all Australia's Government should sell the benefits of our regions.

Regional Australia provides the promise of an affordable housing. Regional Australia provides the promise of being able to spend more time with your family than sitting in traffic or waiting for a bus.

Australia's future depends much on its regions. Regional Australia has made, and continues to make, a major contribution to our national economy, to our way of life, and indeed to our culture and identity as a nation.

Closing the gap on indigenous disadvantage depends greatly on a thriving regional Australia. And, more generally, the future development of regional Australia can lift the speed limits of Australia's growth and enhance the living standards of all Australians.

PART C: PRUDENT MANAGEMENT

Chapter 12: Budget Policy – Fiscal Conservatism

The Coalition supports the efforts of individuals and the private sector to drive growth and prosperity.

The role of government is to furnish private endeavour with good public infrastructure. That includes a high quality legal system, market supporting business regulation, and efficient and fair taxation.

A macro economic framework which supports private business and household investment is a key element of this.

In Australia the Federal government directly controls one arm of the macro economic policy instruments: fiscal or budget policy.

The Coalition believes the government's overall balance of taxation and spending should not seek to displace private business activity. This requires the budget to be in balance over the cycle. It requires the government to reduce net debt as soon as possible.

Budgets can naturally counter some of the effects of the cycles in private business activity through the action of the automatic stabilisers, such as unemployment benefits and progressive income tax rates.

Where private business activity is running below trend it is appropriate for the government to allow the natural stabilisers of the budget to drive the budget into temporary deficit as revenue growth declines and spending increases. This requires the government to temporarily enter the capital markets to acquire debt.

Where private business activity is running above trend it is appropriate for the government to allow the natural stabilisers to drive the budget balance into surplus, as revenue increases and spending falls. This allows accrued debt to be repaid and appropriate provisioning to be made for potential liabilities.

Further discretionary fiscal policy to boost confidence can have a role subject to the preservation of budget integrity over the cycle.

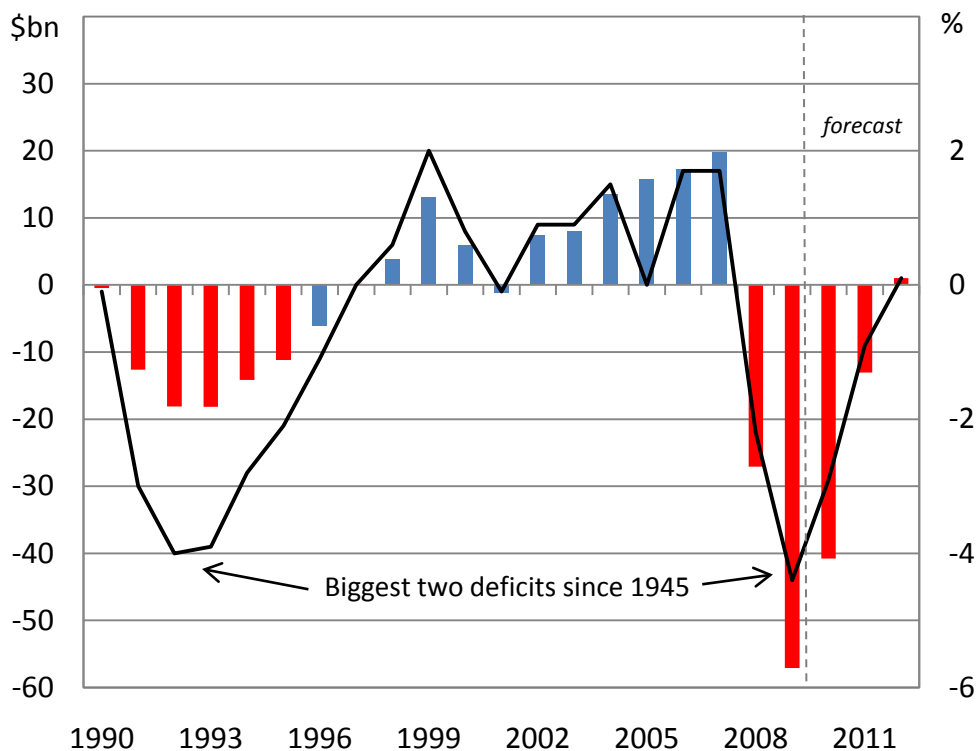
If however, the economy is running at trend or above and the Government continues to run large deficits financed by on market borrowings then public sector borrowings do have a crowding out impact on private credit.

The Coalition rejects the notion that some permanent level of government indebtedness is acceptable. The experience of many governments is that it is difficult to contain the levels of debt once that path has been taken.

Like households, governments ought to live within their means.

Governments need to be aware of the interaction between fiscal policy and monetary policy, the other arm of macro strategy. Monetary policy is not under the direct operational control of the Government but rather is set and implemented in Australia by the Reserve Bank.

Commonwealth Government Cash Balance By Value and Per Cent of GDP

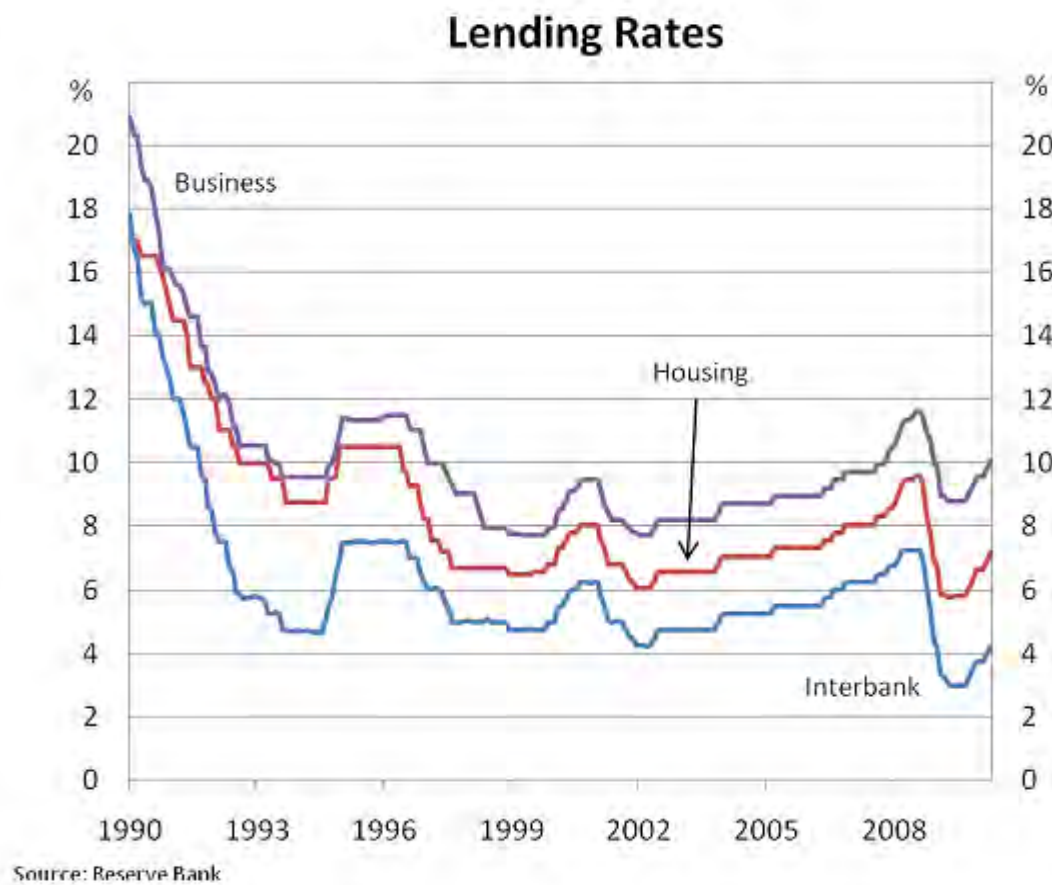


Source: Commonwealth Budget 2010-11 Paper No. 1 Table 1

The two areas of policy are complementary and to some extent substitutes. It is the combined settings that affect overall economic activity.

The Government and the Reserve Bank have to work together to get the overall balance right. This is not to suggest that the Reserve Bank is not independent. Rather, the Government and the RBA must each take into account what the other is doing in determining the appropriate setting of each arm of policy.

In simple terms there is a tradeoff between fiscal policy and interest rates. A tight fiscal policy, which exerts a contractionary effect on the economy over the cycle, allows interest rates to be lower. A loose fiscal policy, which exerts a stimulatory impact on the economy over the cycle, requires interest rates to be higher.



Running a budget surplus over the cycle will result in the government collecting more revenue than it spends. This means taxes will be higher than they need to be to cover government spending. Such an approach might seem to be inconsistent with liberal philosophy that the individual rather than the government is the best determinant of the disposal of income.

However, there are two circumstances where running a government surplus over the cycle may be justified. The first is where the public sector has unfunded off balance sheet liabilities. Public service superannuation liabilities are a good example. In this event it is prudent to run a budget surplus until sufficient funds have been set aside to meet all public sector liabilities.

The second is where a government desires to deliberately alter the mix of macro economic policy settings. Running a budget surplus is contractionary. Its negative impacts on private sector spending and investment can be offset by interest rates lower than they would otherwise be. Lower interest rates can be associated with a lower exchange rate. This combination of lower interest rates and a lower exchange rate will boost private sector spending and investment. A lower currency will also contribute to stronger exports and weaker imports, thereby contributing to a higher trade surplus (or lower trade deficit) and a lower current account deficit. For a capital importing country like Australia, such a policy mix will reduce vulnerability to external shocks. It will also add to national savings.

Such a macro policy mix will maximise the incentives for the expansion of the Australian business sector.

The Coalition is alarmed at the directions in which Labor has taken fiscal policy.

The Labor government has greatly increased spending as a share of the economy. The ratio of spending to GDP is forecast to peak in 2009-10 at 26.2% and then to fall to 23.6% by 2013-14. That will still be higher than in the last two years of the previous Coalition government when we were running significant surpluses.

Also, Labor has projected four years of budget deficits, from 2008-09 through to 2011-12, well after the only quarter of negative growth in 2008.

The Government has a projected peak net debt in June 2013 of \$93.7bn. It doesn't plan to repay net debt until at least June 2019, more than a decade after the need for stimulus has passed.

There will be a massive cumulative net interest bill on Labor debt which we estimate will be around \$37bn. That's a lot of money lost to Australians forever.

The call on the capital markets is massive. Borrowings in 2010-11 will increase by almost \$41 billion, which is the second biggest peacetime increase on record following the previous year's \$57.1bn.

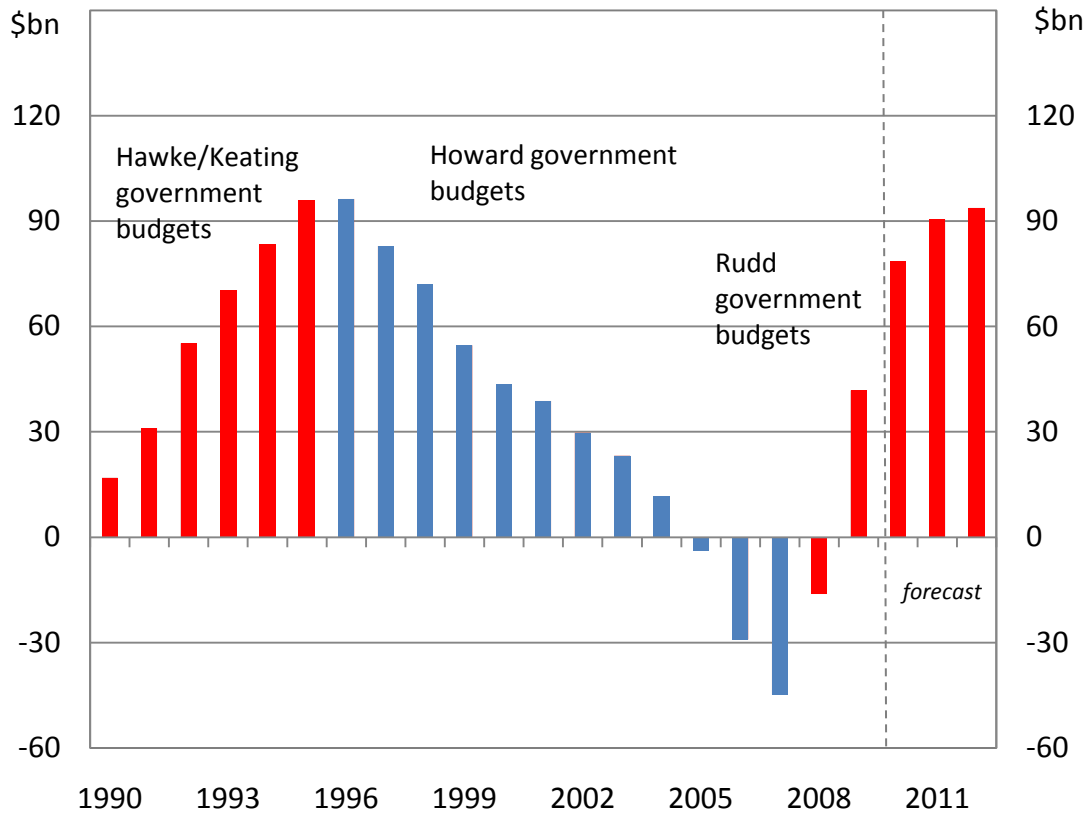
The cost to taxpayers of Government debt is large. The net interest bill for the three years 2011-12 through 2013-14 will be over \$6bn a year. That is \$270 each year for every man, woman and child in Australia. A family with mum, dad and two kids, will be paying \$1100 a year to service Labor's debt.

On top of this will be the cost of services forgone as money is directed to paying down the principal. Running surpluses to repay the debt means a lot less money for schools, hospitals, national security and so on.

The Coalition will restore fiscal rectitude. We restored it last time we won office and we will do it again.

Net Commonwealth Government Debt

Back to Where We Started...



Source: Commonwealth Budget 2010-11 Paper No. 1 Table 1

The Coalition will commit to the following principles.

We will run a budget surplus over the cycle. We will do this to take pressure off interest rates. A tight fiscal policy will allow the Reserve Bank to run an easier monetary policy. The bottom line will be lower interest rates for households, lower interest rates for small business, and a lower exchange rate.

We will stabilize the Federal government debt as quickly as possible after winning government this year.

There will be two elements to this.

The first will be tighter control of spending. The key step will be to continue fiscal restraint until the debt, and not just the deficit, is repaid.

The second will be the sale of assets that no longer should be owned by taxpayers. Every cent of the proceeds will be used to pay down Labor's debt.

Reducing the level of government debt quickly is essential for the future prosperity of all Australians.

Chapter 13: The Role of the Reserve Bank

The Reserve Bank of Australia has a number of functions:

- Setting and implementing monetary policy.
- Management of Australia's holdings of gold and foreign exchange reserves.
- Oversight of the payments system, with a focus on controlling risk, promoting efficiency, promoting competition and ensuring stability of the financial system.

Of these, it is monetary policy which attracts the greatest public attention.

While the RBA is independent from the political process in carrying out its functions, it does nevertheless operate under the broad direction and scrutiny of Parliament. This is manifest in three ways:

- The RBA submits an Annual Report on its activities to Parliament
- The RBA Governor appears at least twice a year before the House of Representatives Standing Committee on Economics, Finance and Public Administration.
- The objective of monetary policy - low inflation - is agreed through an exchange of letters with the Treasurer. At present the agreed target for monetary policy is to achieve an inflation rate of 2-3 per cent on average, over the cycle.

There has been debate in recent years about the appropriate policy target for central banks. Prevailing wisdom is that a focus on inflation as measured by movements in the consumer price index is appropriate. Some central banks have precise targets (Australia, New Zealand, United Kingdom and Europe to name a few). Others operate without a specific target, most notably the United States Federal Reserve.

Others argue central banks should also have a formal role in addressing price movements in assets. The issue is that central banks tend to adjust monetary policy when asset price bubbles burst and have negative impacts on the real economy, as has been the case during the global financial crisis. Mostly they have been reluctant to lean against asset price booms as they develop, if consumer price inflation is within the target band.

The Reserve Bank is well aware of these arguments, and devoted its annual economic conference in 2003 to this issue. It has elected not to seek to formally include asset price considerations within its mandate.

The IMF devoted a special chapter to this issue in its October 2008 World Economic Outlook. It noted that many of the same macroeconomic patterns of the lead-ups to historical asset price busts also apply to the lead-up to the current crisis, including the expansion of credit, the deterioration of current account balances, and the shift into residential investment. To the extent that policymakers accommodated the relaxation in financial conditions, there were risks that were allowed to build up. On the question of whether monetary policy should be responsible for leaning against some of these phenomena, it found there is a good case for reacting more strongly than would otherwise be usual.

For central banks to actively target more than one objective would require “extra tools”. These tools could include the power to vary banks’ loan to valuation ratios, or capital and liquidity requirements.

The Coalition believes it is time for an open discussion on broadening the ambit of the Reserve Banks’ price stability goal to include a broader range of economic objectives.

Chapter 14: Financial Regulation

The resilience of the Australian financial system through the GFC can be attributed to two factors.

The first is Australia's strong prudential framework, arguably superior to that in most other countries, which largely reflects the financial reforms of the previous Coalition administration. There are four regulatory bodies, each having responsibility for a single regulatory function:

- The Australian Securities and Investment Commission (ASIC) – responsible for corporate regulation, market conduct, financial services and consumer protection;
- The Australian Prudential Regulation Authority (APRA) – responsible for prudential regulation of banks and other deposit-taking institutions, insurance and superannuation;
- The Reserve Bank of Australia (RBA) – responsible for overseeing financial systemic stability through its influence over monetary conditions and through its oversight of the payments system;
- The Australian Competition and Consumer Commission (ACCC) - responsible for promoting competition.

The quality of the professional regulators, as well as the soundness of the regulatory framework, was of key importance.

The second factor was the rapid and extensive response of the authorities to provide required liquidity, ensure continued capacity to raise funds, and to preserve confidence. These measures included:

- Extensive and innovative liquidity support by the Reserve Bank to the participants in the money markets;
- The guaranteeing by the government of retail deposits (up to \$1million) of authorised deposit taking institutions;

- The provision of a AAA government guarantee of wholesale fund raisings by authorised deposit taking institutions, for a fee; and
- Liquidity support of the residential mortgage backed securities market through the AOFM and through a broadening of the securities eligible to be purchased by the Reserve Bank.

In the wake of the 2008 Financial Crisis various measures have been proposed in global forums to tighten regulations on the financial system. These include:

- Tighter risk management, particularly of more exotic instruments such as derivatives. This would also entail rethinking of reporting and managing risks other than credit risk such as liquidity risk and market risk.
- Higher capital allocations against risk. This would be aimed at more strictly controlling the leverage of financial institutions (that is, the ratio of debt to equity).
- Potentially, limits on the size of banks to ensure none are too big to fail.
- Better linking of remuneration to long term success, rather than short term success.
- Controls to discourage excessive lending that leads to asset market bubbles, booms and busts.
- More transparent reporting of exposures by financial institutions.
- Whether government guarantees of retail deposits should be a permanent feature of the regulatory landscape.

Australia has weathered the global storm better than almost any other country and so there is a less pressing need for regulatory reform in this country. There is sufficient regulation to ensure stability and safety, but sufficient freedom to allow financial institutions to innovate and prosper.

The Government needs to be careful not to blindly follow the global push for more regulation. The Coalition will not be a rubber stamp that puts Australian institutions under a lesser quality global regulatory umbrella.

The Coalition will continue with the “Australia First” approach to financial regulation which has served us so well.

PART D: SUSTAINABILITY

Chapter 15: Population Policy

There has been a long held view by most political parties in Australia (with the exception of the Greens) that a steadily increasing population is to the benefit of Australia. This lies behind support for an immigration program and the financial incentives provided to have children eg baby bonus, family support payments, and subsidisation of child care. This view is based on a number of strongly held and rarely contested beliefs:

- A larger domestic market will facilitate efficiency benefits from economies of scale.
- A growing population boosts economic growth.
- More tax payers are required to fund the growing fiscal burden of an ageing population
- A larger population adds to Australia's defence capabilities and to its standing in the world.

More recently this commitment to population growth has been questioned.

- There is no absolute correlation between population and the standard of living.
- Australia's export income is largely based on commodities (over 50% of the value of exports is mining commodities and rural exports). These two sectors employ relatively few people.
- Australia faces significant environmental challenges. A significantly larger population could make it more difficult to achieve satisfactory outcomes on these issues.
- Australia faces significant infrastructure challenges, including insufficient housing stock, inadequate transport, and pressures on health and aged care.

One economically credible argument in favour of a higher population is the need for an expanding tax base to support the ageing population. The increase in population needs to be directed to increasing the proportion of the population which is working and contributing to revenue from what would otherwise be the case.

The third intergenerational report projects that current demographic trends will lead to an increase in the Australian population to around 36 million by 2050 from around 22 million at end 2009.

This is not inevitable but will primarily be the result of government policies. Assessment is required to ensure that such an outcome is in the best interest of Australians. This should include consideration of social harmony, quality of life, the provision of adequate infrastructure and preservation of the environment.

The Coalition's policy on population embodies five key elements:

1. Establish a credible and independent source of advice on population growth – through the extension of the role of the Productivity Commission to advise on population sustainability issues.
2. Listen to Australians – through an independent inquiry to be undertaken by the Commission to establish a new benchmark of community attitudes on where to go from here on future population growth.
3. Establish a population growth band target – developed on the basis of Commission advice to inform migration planning that takes into account our capacity to handle growth in areas such as infrastructure delivery, water, energy and food security and environmental sustainability.
4. Increase transparency in decision making – by introducing population planning into the Budget Process.
5. Support Australian business – by ensuring skills migration remains the primary focus of our migration intake.

Chapter 16: The Environment and Climate Change

Caring for our environment is essential for sustainable economic growth.

Australia faces environmental challenges on a number of fronts.

Australia is a large country with a relatively small population, yet already there has been significant impact of human activity on the natural environment. Australia has an unfortunate record of extinction of species, depletion of soils, and removal of vegetation. The Australian landscape is old and appears relatively fragile. Preservation and restoration of the land, and preservation of plant and animal species, is a key component of ensuring development in Australia is sustainable.

Australia is blessed with enormous mineral and energy wealth. The extraction and export of these resources contributes significantly to economic activity. However, all of these resources are finite and non replaceable. Eventually they will be exhausted. That day is many generations into the future, but Australians should nevertheless consider how the benefits from exploitation of these non renewable resources can be sustained.

Australia is the driest inhabited continent. The limited availability of water is already impacting on human activities. A shortage of water for agricultural production in some regions is already leading to changes to land use in the Murray Darling basin. Several cities have installed desalination plants to supplement water supplies for urban consumers. The challenges posed by water availability are likely to increase if predictions of permanent climate change come to pass.

It is likely that Australia has a lower “carrying capacity” for human activity than other countries with more generous natural water supplies. Future development must take account of this constraint on sustainable development in Australia.

Australia also has iconic natural features such as Uluru, the outback, rainforest, wetlands and the Great Barrier Reef which form an essential part of the Australian identity and provide significant economic benefits through tourism. The care and preservation of these natural features is important.

Climate change is a special challenge. There is some debate as to:

- Whether the planet is warming;
- If it is warming, whether human activity is contributing to that process;
- If the first two points are true, whether there are negative consequences,

The majority view of scientists around the globe is that all three points are true. That underpins the global push for actions to mitigate the speed and impacts of climate change.

The core reason for contention on this issue is that remedial actions have potentially large impacts on industries and jobs. Imposing a unilateral carbon tax has a particularly large impact on Australia because we have comparatively high carbon emissions per capita. This is a product of our dependence on coal fired power stations, our large transport distances, and a high number of grazing animals relative to the human population.

The costs of modifying current activities would have particularly high costs in regional areas in terms of lost jobs and economic activity.

Climate change is different from other environmental issues in that it is global and there is little Australia can do in isolation to mitigate its incidence or effects. This is partly due to Australia's tiny aggregate contribution (1.4%) to the global problem, but also because activities priced out of Australia will simply migrate to lower cost centres offshore.

To combat climate change Australia needs a scheme which will reduce overall carbon emissions while preserving Australian industries and jobs.

The Coalition has already announced a comprehensive direct action plan to deal with the economic and environmental challenges of climate change.

Direct action is the best approach for dealing with climate change in Australia in the absence of a global market-based mechanism. Of course we encourage all countries to undertake best endeavours on a level playing field to deal with climate change.

Chapter 17: Energy Policy

Australia's economic prosperity depends on protecting and maintaining our natural competitive advantage in the production of energy.

Australia is blessed with abundant supplies of energy. It has vast resources of fossil fuels such as coal and natural gas and limited supplies of oil. It also has the world's largest reserves of uranium.

Australia is currently a significant net energy exporter, largely based on exports of coal, and growing exports of Liquefied Natural Gas and processed uranium. Prior to the announcement of the RSPT exports of energy were expected to grow strongly in coming decades, with particularly solid prospects for LNG, both Natural and CSM derived, and uranium. Australia has the capacity to be a major supplier of cleaner energy to the rest of the world, but already faces strong competition from other exporting nations. The Rudd Government's RSPT represents a major threat to future growth in emerging uranium and CSM-LNG industries and any expansion of our coal export capacity. Instead of driving future investment away from Australia, government policy should be directed at ensuring adequate and efficient infrastructure to underpin this important Australian industry.

While Australia is a net exporter of energy and supplies most of its own domestic energy needs, it does need to import crude oil and refined petroleum products for transport needs. Unless there are significant new discoveries of oil, Australia's dependence on imported crude oil and refined products will continue to increase. Production of synthetic fuels such as ethanol and biodiesel is rising although to date this has depended on government subsidies and mandates. Development of this sector is important to reduce Australia's growing dependence on imported supplies.

Australia relies predominantly on coal for electricity generation with natural gas and some renewables playing an increasing role in generation growth. Natural gas also plays a critical role in the direct supply of energy to industry and household users.

Use of coal for electricity generation provides cheap baseload power. The chief downside is high carbon emissions.

Coal mining is Australia's largest export industry and is the dominant economic activity in some regional areas. Its long future depends on the development of technologies to reduce its carbon footprint, in particular technologies to enable the sequestering of carbon emissions after production.

Further development and commercialisation of renewable energy generation technologies combined with a major emphasis on energy efficiency at the distribution and consumption levels will be critical as we move to a low emission economy.